

Message Text

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DRAFTED BY EXIM: J C FLEIG
APPROVED BY EUR:WHLEURS
EXIM: R J ALBRIGHT
EXIM: J L MOORE(DRAFT)
TREASURY: P MCCARTHY(PHONE)
EB/IFD/ODF:TPARKER
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TO AMEMBASSY WARSAW

C O N F I D E N T I A L STATE 100596

E.O. 11652:GDS

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SUBJECT: NEW EXIMBANK POSTURE AND POLAND

REFERENCE: A) STATE 070331; B) WARSAW 2653.

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FROM EXIMBANK CHAIRMAN MOORE FOR AMBASSADOR SCHAUFELLE

1. I AM PLEASED THAT THE REPORT OF OUR POSITIVE ATTITUDE TOWARD UTILIZING RATES AND TERMS THAT ARE MORE COMPETITIVE HAS REACHED YOU (REF A). OUR RECENT DECISION TO LOWER OUR INTEREST RATE AND INCREASE OUR PARTICIPATION IN THE GE SALE FOR THE HUTA KATOWICE PROJECT (AS NOTED REF B) IS MERELY ONE EXAMPLE OF OUR DETERMINATION TO BE EFFECTIVE IN MEETING FOREIGN COMPETITION. ADDITIONALLY,

YOU MAY BE INTERESTED TO LEARN THAT OUR LOAN AUTHORIZATIONS THROUGH THE FIRST FIVE MONTHS OF FY 1978 TOTALED 968 MILLION DOLLARS, WHICH FAR EXCEEDS OUR TOTAL OF 777 MILLION DOLLARS FOR ALL OF FY 1977.

2. I AM SOMEWHAT CONCERNED, HOWEVER, THAT THE BANK'S EMPHASIS ON BEING COMPETITIVE NOT BE MISUNDERSTOOD. WE ARE ALSO DIRECTED BY LAW TO PROVIDE FINANCING ONLY WHEN WE HAVE A REASONABLE ASSURANCE OF REPAYMENT. IN COUNTRIES WITH CENTRALLY PLANNED ECONOMIES, AS YOU KNOW, OUR ASSURANCE OF REPAYMENT DEPENDS ALMOST TOTALLY ON THE

OVERALL PERFORMANCE OF THE COUNTRY'S ECONOMY. WE ARE STILL CONCERNED ABOUT POLAND'S ABILITY TO SERVICE OVER THE NEAR TERM ITS GROWING HARD CURRENCY DEBT. IN FACT, US AGENCY PROJECTIONS INDICATE THAT DEBT SERVICE REQUIREMENTS TO MEET EXISTING DEBT MAY BE UNDULY ONEROUS FOR THE NEXT FEW YEARS IN TERMS OF POLISH POTENTIAL HARD CURRENCY EARNINGS. WE ALSO SEE GROWING EVIDENCE THAT OTHER U.S. AND FOREIGN LENDERS, INCLUDING OFFICIAL EXPORT CREDIT AGENCIES, SHARE OUR CONCERN.

3. I BELIEVE IT WAS QUITE CLEAR THAT FINANCE MINISTER KISIEL'S STATEMENTS TO ME IN DECEMBER 1977 REFLECTED
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CONCERN FOR GROWING POLISH DEBT, AND WERE NOT, AS YOUR CABLE SUGGESTS, MOTIVATED BY CONCERN OVER COMPETITIVE TERMS. INDEED, POLAND SEEMED VERY PLEASED WITH OUR PROMPT POSITIVE RESPONSE TO KISIEL'S APPLICATION FOR AN INCREASE OF OUR CFF LINE TO POLAND TO 51 MILLION DOLLARS LAST DECEMBER. HAVING IN MIND POLAND'S OWN RELUCTANCE TO INCREASE DEBT, WE HAVE BEEN RATHER DISCOURAGING TO PROSPECTIVE SUPPLIERS FOR BOTH OF THE PROJECTS CITED IN YOUR CABLE (REF B). WE HAVE HAD MEETINGS WITH U.S. PROPONENTS OF BOTH PROJECTS, AND WHILE WE HAVE NOT RECEIVED OR BEEN ASKED TO CONSIDER FORMAL APPLICATIONS FOR ASSISTANCE, WE HAVE INDICATED OUR BELIEF THAT APPROVAL OF ANY FORTHCOMING APPLICATIONS WOULD BE DIFFICULT. IN ADDITION TO OUR CONCERN OVER THE ECONOMIC SITUATION OF POLAND, WE ARE CONCERNED THAT PARTICIPATION IN EITHER PROJECT COULD INCREASE OUR EXPOSURE IN POLAND TO DOUBLE ITS PRESENT SIZE, OR MORE. CERTAINLY WE WOULD HAVE TO CONSIDER THIS VERY CAREFULLY. IN ADDITION, OUR LEGISLATIVE CHARTER REQUIRES THAT WE CONSIDER THE ECONOMIC IMPACT ON THE U.S. OF THE BANK'S ACTIVITY. OF COURSE, RECEIPT OF CONTRACTS FOR THESE PROJECTS WOULD PROVIDE JOBS FOR THE SUPPLIERS. ON THE OTHER HAND, WE WOULD HAVE TO STUDY VERY CAREFULLY THE POSSIBLE NEGATIVE IMPACT ON THE CURRENTLY DEPRESSED U.S. STEEL INDUSTRY. FOR THE

PILA POLYESTER FIBER PROJECT, WE ARE AWARE OF A GLUT IN THE WORLD SUPPLY OF THIS FIBER WHICH IS SO EXTENSIVE THAT IT HAS CAUSED PLANT CLOSURES WITHIN RECENT MONTHS IN THE U.S., U.K., FRANCE, AND THE NETHERLANDS.

4. WHILE I AM NOT FORECLOSING POSSIBLE EXIMBANK PARTICIPATION IN FUTURE POLISH PROJECTS, I AM SUGGESTING THAT FOR THE TIME BEING A VERY CAREFUL STUDY WILL HAVE TO BE MADE OF EACH ONE. TO FACILITATE SUCH APPRAISALS WE

WANT TO MAINTAIN THE GOOD DIALOGUE WHICH HAS EXISTED BETWEEN EXIMBANK AND POLISH GOVERNMENT OFFICIALS SINCE
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OUR RESUMPTION OF LENDING IN 1972. TO THIS END, I SUGGEST THAT A FEW MEMBERS OF THE BANK'S STAFF VISIT POLAND SOMETIME IN THE NEXT 30-60 DAYS. THE PURPOSE OF THIS VISIT WILL BE TWOFOLD: FIRST, TO REVIEW WITH POLISH OFFICIALS THEIR ECONOMIC SITUATION AND PROJECTIONS AND THEIR NEAR TERM DEVELOPMENT PLANS WHICH COULD INVOLVE EXIMBANK CREDITS, AND SECOND, TO REVIEW THE PROGRESS OF IMPLEMENTATION OF EXISTING LOANS THROUGH ON-SITE VISITS TO A NUMBER OF PREVIOUSLY FUNDED PROJECTS.

5. I WELCOME YOUR THOUGHTS AND WANT TO KEEP IN REGULAR TOUCH WITH YOU. CHRISTOPHER

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